Narration section of Chairman’s Address
For 2000 Annual General Meeting

Margaret Jackson

Introduction
It is a great pleasure to be again holding the Qantas annual general meeting in Sydney.

Today is my first AGM as chairman following my appointment on 1 August this year on the retirement of Gary Pemberton.

On behalf of shareholders, I would like to formally thank Gary for the significant contribution he made as chairman of Qantas.

He was a wonderful chairman to work with and he led the board and management soundly for more than seven years.

It is a privilege and an honour to have been asked to serve as your chairman and I am committed to serving you, the shareholders, to the best of my abilities.

80th anniversary
As you may be aware, today was selected for our AGM because it is an important and historic day for Qantas.

On 16 November 1920, the company was officially registered in Brisbane as Queensland and Northern Territory Aerial Services Limited.

This makes us the second oldest airline in operation in the world – a proud outcome of the efforts of two young Australian pilots, Hudson Fysh and Paul McGinness, who sailed home from world war one in 1919 and founded the airline eighty years ago.

Qantas began operations with joyrides and air taxi flights before commencing scheduled passenger and mail flights in 1922.

Today Qantas is the largest domestic and international airline in Australia.

We provide some 560 flights every week to and from Australia, more than 490 flights each day within Australia, including regional services and we continue to expand our network.

Last year we carried 13.53 million passengers on our domestic services including regional routes, and 6.95 million passengers on international flights.

In the last financial year, Qantas resumed services to New York after an absence of 26 years.

We have also introduced daily non-stop services between Melbourne and Los Angeles and same-plane flights from Brisbane to Los Angeles via Auckland.
Within Australia, Qantas now operates to 55 regional destinations. Our regional network was expanded during the year to include services to Albury, Ballina, Mt Hotham, Coffs Harbour and Hamilton Island.

Board changes
Since our last Annual General Meeting, there have been a number of changes to the Qantas board, in addition to the retirement of Gary Pemberton.

John Ducker retired on 31 August after serving on the board for 17 years, including the roles of chairman of the safety, environment and security committee and a member of the audit committee.

Gary Toomey resigned from Qantas and the roles of Deputy Chief Executive Officer and Chief Financial Officer on 13 September. He also resigned from the board, effective the same day.

Bob Ayling resigned from his board position at Qantas on 10 April following his resignation from British Airways.

On behalf of the shareholders, I thank each of these directors for the contributions they made to the board deliberations over many years and to Qantas.

The vacancies were filled this year as follows:

- Lord Marshall rejoined the board on 1 July, after having served on the board from March 1993 to December 1996;
- Geoff Dixon was appointed to the board on 1 August;
- Peter Gregg was appointed on 13 September; and
- John Schubert was appointed on 23 October.

As required by the Qantas constitution, Geoff Dixon, Peter Gregg and John Schubert retire at this meeting and later in the proceedings they will be standing for re-election as directors, together with Trevor Eastwood and Jim Kennedy.

Management succession
As well as the changes to the board, a series of changes in relation to senior management of the airline were announced in September, including succession plans on the retirement next year of Chief Executive, James Strong.

Executive succession is a key element of the board’s strategic planning and is designed to provide an orderly process when management changes occur.

As you know, the board was delighted to announce that Geoff Dixon will become Chief Executive Officer when James steps down next year.

The board was also pleased to be able to appoint someone of the calibre of Peter Gregg as Chief Financial Officer and an Executive Director of the board.

In making these decisions, the board is fortunate in terms of continuity, to have the depth of experience and talent that exists within the airline’s senior management ranks.
The executive transition is an orderly and progressive change, made easier by the professional relationship that James and Geoff have developed through working together in a number of organisations over a period of 30 years.

Your board is confident the strategic direction and day-to-day operation of Qantas will continue to be managed prudently and successfully.

Results
I would now like to comment briefly on our results for the 12 months to June 2000.

The record result achieved for the year reflects the ability of Qantas to continue to grow the various parts of the business and to meet the challenges ahead. Some of the highlights were:

- The net profit before tax of $762.8 million was up 15 per cent on the previous year;
- The net profit after tax of $517.9 million was up 23 per cent;
- There was an abnormal profit of $82 million after tax, recorded in the first half of the year. This resulted from a sale of part of the investment in the international data network company, equant, and an abnormal tax credit due to changes in the rate of corporate tax;
- Our operating profit before tax of $705 million, was up 17 per cent;
- Revenue increased to more than $9 billion, up eight per cent;
- Earnings per share increased to 42.8 cents, up 21 per cent.

Dividends
As you know, the board paid an interim dividend of 11 cents per share and a final dividend of 11 cents per share. The board also decided to pay a special dividend of 37 cents per share, all fully franked. In total, dividends were 26.5 cents per share higher than last year.

We declared the special dividend to maximise returns to our shareholders by distributing accumulated franking credits in a year when they have more value to shareholders as a consequence of tax changes.

We also reintroduced the dividend reinvestment plan (drp) to enable the release of franking credits and to assist in funding future capital expenditure.

A discount rate of 2.5 per cent will apply for the special dividend and the drp will be 50 per cent underwritten.

Earnings diversity
Qantas now has a range of operations that provide diversity of earnings across the core airline, the regional airlines, Qantas Flight Catering Limited and Qantas Holidays.

The subsidiary companies provided significantly improved returns in the year ended 30 June 2000.
Turning to international operations, the strongest routes were between Australia and the USA, UK and Japan.

International operations contributed $374.8 million in earnings before interest and tax (EBIT), up 21.6 percent.

Domestic operations contributed $272 million, which was an increase of 5.9 per cent over the previous year.

**Partnerships**  
As in previous years, partnerships with other airlines remain an important component of our international strategy.

In May this year, the Australian competition and consumer commission authorised a joint services agreement between Qantas and British Airways for an additional three-year period.

The agreement, originally approved in 1995, gives the two airlines the ability to coordinate schedules and pricing on their services between Australia, Asia and Europe.

This provides customers with a wider choice of fares and itineraries, improved transfers between the two airlines and greater benefits for Frequent Flyers.

**Oneworld**  
Qantas and British Airways also expand their partnership through membership of the Oneworld alliance.

Both airlines are founding members of Oneworld and contrary to recent media speculation, the partners are continuing to work on ways of providing further benefits for customers as well as for all alliance members.

**Safety and operational reliability**  
In the 80 years since Qantas was founded, it has built a reputation for excellence in:

- Safety
- Operational reliability
- Aircraft maintenance and
- Customer service.

**Qf1 investigation**  
The serious accident in Bangkok in September last year caused Qantas to review its operational procedures and training.

The depth of scrutiny, which has taken place over the past year in these reviews, revealed a number of areas in which we can improve.

We believe that as a result of this review, Qantas will emerge as an even stronger and more operationally proficient airline.

Qantas is cooperating with the Australian transport safety bureau in the detailed investigation of all factors surrounding the accident.
Until this investigation is completed and its findings made public, it is not appropriate to comment on specific aspects of the accident or the airline’s response.

Major events last year
I would like to mention some of the major activities from the past year, as detailed in the copy of the 2000 annual report that was sent to all shareholders.

Fleet
During the year, Qantas purchased three new Boeing 747-400 aircraft and one new Boeing 767-300 aircraft.

We also took delivery of the first of seven Boeing 767-300 aircraft being leased from British Airways. All seven of these aircraft are scheduled to arrive in Australia before the end of this calendar year.

Collectively, these aircraft deliveries are enabling us to grow our best performing routes and providing additional time for maintenance so we can maintain on-time schedules.

As indicated some months ago, we expect to announce a decision on our long-term fleet program before the end of the year.

This fleet development strategy will represent a prudent approach consistent with the airline’s growth over the last five years.

Capital expenditure
Capital expenditure during the year totalled $1.1 billion including investments in new aircraft, airport terminal developments in Melbourne and Sydney, a program of Rolls Royce engine modifications and continued upgrades of B747-400 and B767-300 aircraft interiors.

It is important to note that despite this capital expenditure, gearing levels continued to be within our target range.

Product
Shareholders will also be aware of another important development announced in March this year – our plans to invest a further $400 million over two years in product and service improvements.

These improvements include a new inflight entertainment and communications system on our long-haul fleet of Boeing 747-400 aircraft.

Customers will benefit from individual seat-back videos in economy class and new larger individual video screens and in-seat power points for laptop computers in first and business class.

In addition, all passengers will have access to an onboard intranet offering access inflight to selected web-sites, games on demand and telephones.

CEO introduction
Before covering future issues, I would now like to invite your company’s Chief Executive, James Strong, to make some comments.

James Jtrong  
[JAS to speak]

Margaret Jackson resumes

Thank you James.

Major challenges
As I said in August when announcing the year 2000 results, Qantas is a disciplined and robust airline ready to meet the compound effects of additional domestic competition and other specific cost increases that will combine to put pressure on profitability in the current financial year.

Since listing in 1995, Qantas has delivered successive improvements in profitability. Each year has brought a variety of challenges and the 2001-year is no different.

Some of the current challenges are:

Fuel prices
Our successful fuel hedging strategy delivered savings in excess of $270 million in the last financial year.

However, US dollar fuel prices have averaged 39 per cent higher this year than last year.

Despite significant fuel hedging benefits, and excluding movements in foreign exchange and increases in fuel usage from new flying, fuel costs will still be more than $170 million higher than last year.

New entrants
There has been much media comment and speculation in recent months about the potential impact new domestic entrants may have on the established airlines.

We have responded with a variety of measures, including matching the fares of the new entrants.

Prior to the entry of the new airlines, Qantas previously sold a large volume of discounted tickets each year.

In the last financial year, for example, we sold one million fares at the equivalent of a $99 Sydney/Melbourne fare.

I can assure you that we will protect our market position by using pricing and inventory management, including continuing to offer a variety of discount fares to remain competitive.

One of the many strengths of Qantas is that it provides a very wide range of products and services for our customers.
These include an integrated international and domestic network, frequent schedules, extensive terminal and lounge facilities and a very successful Frequent Flyer program.

Each year we strengthen our distribution arrangements to continue our strong relationships with travel agents and many corporate customers.

**E-commerce**
Similarly, our e-commerce initiatives provide us with the opportunity to lower costs, improve our distribution capability, build on the strength of our loyalty programs and improve the overall customer experience.

Our alliances with companies such as Telstra, and a number of financial institutions, will allow us to strengthen the relationship with our customers through attractive products similar to the Qantas Telstra visa card.

**Sydney airport**
The major hub of Qantas is, of course, in Sydney where we are the largest operator at the Sydney Kingsford Smith airport.

The anticipated federal government decision on future aviation infrastructure in the Sydney basin looms as a critical factor for our operations and future planning.

Whatever is proposed, surely everyone must recognise the importance of Sydney as the major gateway into and out of Australia, its significance for communities throughout regional NSW, and for users of the whole domestic network.

Qantas considers that Australia will need a second airport in the Sydney basin capable of meeting the eventual passenger overflow from Kingsford Smith.

**Conclusion**
The period ahead contains uncertainties and challenges, both in Australia and overseas for Qantas.

Qantas as a public company has established a track record of adjusting to changing circumstances to deliver reasonable levels of profitability, by its focus on shareholder returns.

Already in the current financial year we have had the unusual combination of the introduction of the GST, new domestic competitors, the Olympics, unprecedented fuel price increases and a fall of more than 10 per cent in the Australian dollar.

While we have met the new challenges effectively to date, market circumstances and the unusual combination of events make it difficult to predict the profit levels for the year ahead.

However, on the basis of the information available to us at this time we expect to deliver an operating profit result for the first half broadly consistent with last year.